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## THE RATIONALITY OF ECONOMIC ACTIVITY. II

### III

If it be granted that psychological knowledge is helpful to economists, then Mr. McDougall's criticism of the traditional economic psychology must be faced. The chief point of this criticism is that the classical economists assumed man to be "a reasonable being who always intelligently seeks his own good or is guided in all his activities by enlightened self-interest." The truth is, Mr. McDougall asserts that "mankind is only a little bit reasonable and to a great extent very unintelligently moved in quite unreasonable ways."<sup>32</sup> That is, the economists have committed "the intellectualist fallacy."

In considering whether this criticism is just with reference to contemporary economics, it is necessary to summarize the psychological assumptions commonly made. The statement which follows is intended to apply primarily to economic theory of the eclectic type.

An element of psychological unreality is clearly present in most expositions of the theory of value. Bargainers are usually represented as exchanging two consumption goods—say nuts and apples. They come to market with definitely formulated ideas of how many units of the good in their possession they will give to get each successive unit of the other good. These demand schedules rest upon equally definite ideas concerning the varying marginal utilities which each good has for them as the supply is increased or diminished. The artificiality of the whole picture is further enhanced by using diagrams to show the varying marginal utilities of goods, and the varying disutility of successive hours of labor.

But economists do not seriously believe in all the psychological implications of such expositions. To them the whole apparatus of numerical examples and of diagrams is merely a

<sup>32</sup> *Social Psychology*, p. 11.

convenient device for illustrating the essential features of a process too complicated to be described realistically. And the theoretical conclusions of which further use is made do not depend for their validity upon the artificial features of the demonstrations. What a psychologist objects to might be surrendered without vitiating the results—though not without marring the polish of the exposition.

If one looks thus behind the form to the substance of economic theory, one finds that the psychological assumptions really implied in and essential to the conclusions are broad and simple. For most purposes the list would be limited to the irksomeness of labor, the satisfaction derived from the consumption of goods, the increasing intensity of the first and decreasing intensity of the second as labor and consumption proceed, the emergence of new wants as the old become partially satisfied, the preference for present over future satisfactions, and sufficient intelligence to recognize and to act in accordance with these simple conditions so as to attain ends in the easiest known way. These assumptions, it is commonly believed, are not artificial; on the contrary they are held to be substantially verified by observation. And they contain the measure of “rationality” really imputed to men by economic theory.

Now, are the economists guilty of the “intellectual fallacy” in making these assumptions? Are they seriously mistaken in believing that “economic actions have behind them a rational motive and call into play the higher mental faculties?”<sup>33</sup>

The dictum that “mankind is only a little bit reasonable” seems to require an affirmative answer. But in another connection Mr. McDougall incidentally recognizes the peculiar rationality of the economic problem. His reason for putting such heavy emphasis upon the instincts is that they supply the *motive power* for all mental processes, and determine the *ends* of all activities.<sup>34</sup> But in one passage he remarks that activity initiated by instinctive impulses “may take the predominantly intellectual

<sup>33</sup> Bücher, *Industrial Evolution*, p. 2.

<sup>34</sup> *Social Psychology*, p. 44.

form of thinking out means for the attainment of the end.”<sup>35</sup> Now economics is concerned precisely with this problem of means. It undertakes to show how men deal with the material requisites for attaining the wide variety of ends which they set themselves. Indeed one may fairly call economics the science of ways and means. Therefore, on Mr. McDougall’s own showing the economists deal with a type of activity in which the rational element is peculiarly prominent.

Of course, economic activity is not conceived to be directed always by this predominantly intellectual process of thinking out afresh the means by which the end in view may be attained. On the contrary man’s rationality is usually exhibited by a sensible acceptance of an established routine proved by experience to be effective. But this routine itself is rational in character, and yearly becoming more so through the progress of industrial and business technique. The making of goods is today guided by the applications of natural science, and this science is a pre-eminently rational view of phenomena in terms of impersonal causal sequence. The very perfection of rationality is exhibited by the industrial organization and management of the great industrial plants already typical of economic life—and clearly increasing their sway. Similarly, the making of money—the pecuniary phase of economic life—is now guided in a systematic and impersonal fashion by the device of accounting, a form of technique bearing somewhat the same relation to mathematics as industrial technique bears to physics and chemistry. Indeed, Sombart has discussed the development of accounting under the suggestive caption “economic rationalism.”<sup>36</sup> And these two highly rationalized phases of economic activity—the industrial and the pecuniary—have definitely systematized relations to each other. For the carefully ordered complex of activities connected with making goods is itself subordinated to the carefully ordered plans for securing profit-balances upon the ledgers.

From the psychologist’s standpoint there is no need to question the substantial validity of the facts alleged. But there is

<sup>35</sup> *Ibid.*, p. 176.

<sup>36</sup> *Der moderne Kapitalismus*, Vol. I, pp. 391-97.

reason to question whether these facts justify economists who aspire to deal with realities in both starting and stopping with the assumption of rationality. For there are other facts, no less worthy of being taken into account, with reference to which the assumption of rationality appears inadequate, if not mistaken.

The rationality of the plans by which industrial and business operations are directed does not mean that all the activity involved in their execution is equally rational. A great part of the employees in both our workshops and our counting-houses do work which is distinctly machine-like in character. Indeed the majority of men connected with the typical business enterprise have their thinking done for them in the main: they are used like machines to execute the plans of others. If economic theory aims to deal with facts, it ought not to slur over this difference, so important in the lives of men, between activities which do and activities which do not involve the constant play of intelligence. While it assigns the leading rôle in devising plans to reason, it ought to treat the other type of activity in different terms. The conspicuous psychological facts here are facts of habit, amenability to suggestion, tendency toward imitation, and the instinct of construction. In other words, the economist who makes a faithful effort to represent human activity as it is, must have recourse to such analysis as McDougall recommends and practices.

Second, the assumption of rationality fits the activities of consumption nowhere outside of economic treatises. Men, and more especially women, plan the spending of money upon personal satisfactions with far less attention than they give to their plans for the spending of money upon business ends. Passing whims, carelessness about prices, ignorance of qualities, obstinate preference for old ways are left wide scope. In McDougall's terms, habit, suggestibility, and the instincts of emulation and imitation must be brought in, if we are to account for our own subservience to fashion, our conspicuous waste, and our slovenly dependence on the advertiser. The assumption of rationality is inadequate to explain the facts.

More fundamental is the great problem of accounting for economic rationality itself. Technical methods in industry, and accounting as a method of control, are things which the race has learned by slow degrees. To understand the present situation it will not suffice to take these methods for granted. On the contrary, it is one of the economist's chief tasks to account for them. The like holds true of all the great economic institutions, such as the capitalistic organization of business enterprise, the use of money, private property, the economic responsibility of the individual. It holds true further of the ultimate psychological traits of human nature, with which the economist sets out. The fact that labor is irksome is a fact to be explained; indeed a very puzzling problem rather than a simple fact. For how can we reconcile man's aversion to the activity necessary for his sustenance with his success in outstripping all other animal species in the struggle for survival and for domination? In the same way, the satiability of wants, the emergence of new desires, and the preference for present over future satisfactions are human traits whose fundamental importance makes their explanation fundamental problems. So also is the intelligence which men exhibit in acting so as to secure their satisfactions with the least effort. In fine, economic rationality is proved by ethnology to be an acquired aptitude. As such it is the central problem of economics—not a solid foundation upon which elaborate theoretical constructions may be erected without more ado. Even if economists are justified in starting with it as an assumption, they are not justified in stopping before they have made it a problem. And when they treat it as a problem they will find themselves working back to habits, and from habits back to instincts.

So far, psychological criticism indicates that the assumption of economic rationality is not so much mistaken as inadequate. It applies to the work of the captains but not to the work of the rank and file in industry and business; it does not explain the activities of consumption; and it betrays the economist into neglect of his chief problem.

But do these strictures invalidate the great body of economic

theory? According to the English writers upon the scope and method of economics, the science is protected by a statute of limitations. It undertakes to explain only the production, evaluation, and distribution of goods in society as at present constituted. Such subjects as the routine character of much labor, with its cultural significance, and the vagaries of consumption, it leaves to sociology. The tasks of accounting for the present economic institutions and the leading traits of human nature it hands over to economic history, ethnology, and psychology. For itself it reserves the field within which intelligent choice prevails, under the conditions established by an organized set of institutions and a well-developed human nature. And this field it holds wide enough to require all the energy of one company of scientific workers.

Superficially, such a division of labor between economics and her sister sciences seems not only logical but practical. But opinions differ concerning its actual workings. Passing over the obvious inconvenience of having to hunt out and piece together the various sections of information which this scheme proposes that the several sciences shall provide, and the obvious danger that some of these sciences will neglect the topics assigned them, a psychologically trained reader feels that economists do not perform well their own part of the work under conditions of such narrow specialization.

This division of labor betrays the economic theorist into tacitly misconceiving the mental processes involved in economic activity. The most serious of his misconceptions concerns the rôle played by concepts having a social origin.

These concepts are the focal points in that organization of ideas which is one of the fundamental requisites of thinking. From one point of view, the race's stock of concepts is its most valuable asset; the summation of its cultural achievements. But, unlike the instincts, these concepts are not part of the mental equipment which the individual inherits at birth; rather they are something which he must acquire in the course of experience. However, the individual does not work them out for himself. Indeed, it would be far beyond the power of any human brain

to beat out of the tangled maze of experience, unassisted, more than an infinitesimal portion of the concepts which the civilized races have accumulated. The individual is given the benefit of these racial achievements. By formal and informal education he is gradually taught to comprehend and to use a more or less considerable fraction of those concepts which prevail in the social group to which he belongs.

Upon the thinking and the acting of the individual the concepts thus drilled into him exercise a profound influence. First, they save him a vast amount of mental effort and heighten his efficiency. Many things he does not have to think out for himself, but can take for granted. As "heir of all the ages" a modern child is offered, ready-made, a vast assortment of mental tools with which to perform his tasks. He has but to master their use. With this saving of effort there goes a marked standardization of thinking and of acting. The vagueness of instinct is rendered definite, the vagaries of impulse are regulated, by the standard ideas imposed upon each individual by his elders and his equals. The formation of habits consists largely in mastering and applying them, and these concepts, as the common elements in habits, make men similar to each other in their thoughts and actions. From another side, the concepts supply the basis for rationality. As logical formulations of ideas proved valid by long experience, their acquisition trains the individual in reflection, marks out the lines of his own planning, and makes possible a far more intellectual control over activity than he could attain without their use.

But the significance of concepts is not limited to this direct influence upon the individual. Social concepts are the core of social institutions. The latter are but prevalent habits of thought which have gained general acceptance as norms for guiding conduct. In this form the social concepts attain a certain prescriptive authority over the individual. Their daily use by all members of a social group unremittingly molds these individuals into common patterns without their knowledge, and occasionally interposes definite obstacles in the path of men who wish to act in original ways. Finally, the great organized systems of

concepts which make up the social institutions achieve a certain independence of their makers, and give rise to objective consequences which were never intended. Unforeseen logical developments, unforeseen conflicts between different elements, and unforeseen results of acting along the lines laid down, all occur from time to time and react upon the communities in which the institutions prevail, much as personal habits react upon their practicers.

Among the most important of these concepts and institutions are those worked out in dealing with the economic problem of ways and means. By using ethnological materials we can follow in a fashion the slow development of such concepts as ownership, labor, tools, exchange, trades, slavery, thrift, money. Indeed, we civilized men can form no just idea of the economic lives of our ancestors, except we prepare ourselves by patient study to think their thoughts after them. There can be no more convincing proof of the vital rôle which economic concepts play in human life than the egregious blunders into which economists have stumbled through imputing the use of full-fledged modern concepts to primitive men. From the scientific point of view, the theorist commits an error no less serious when, in accounting for the current situation, he treats the concepts which modern men have gradually learned to use as if they were a matter of course, an integral part of man's native endowment, something generically human.

Now, to pass over the evolutionary phases of this subject to men of other sciences almost certainly means to misconceive the character and underrate the influence of the current economic concepts. It may be logically possible to take these concepts for granted as among the data of economic theory, and to give an account of economic processes in which their character is correctly stated and their rôle receives its due recognition. But such is seldom the result. Economists who have "some understanding of the human mind and its modes of operation" regard the study of these concepts as an integral part of their own task. Economists who would delegate this task to others, on the contrary, seldom have such understanding of the human mind.

Accordingly they fall unconsciously into an artificial way of representing the mental processes of economic life. Thus the attempt to limit economic theory to "an analytical study of the motives which govern men in business and industrial life," and to avoid bothering about "what the primitive man may or may not have done,"<sup>37</sup> has positive as well as negative disadvantages. It not only leaves untreated those evolutionary problems which loom so large in the perspective of modern science; but it also prevents the theorist from comprehending the true character of the limited range of phenomena with which he professes to deal.<sup>38</sup>

These disadvantages, negative and positive, can best be shown by examining a concrete case—the treatment of pecuniary concepts by economists since Adam Smith.

#### IV

Adam Smith's treatment of money was shaped largely by his reaction against mercantilism. "This popular notion that wealth consists in money" was one of the pervasive fallacies which he sought to extirpate by criticism<sup>39</sup> and to supplant by sounder doctrine. Hence he was deeply concerned to show that the important objects of attention to the economist are not money but "the necessities and conveniences of life" and the labor by which they are produced. To him, money was "the great wheel of circulation," "by means of which every individual in the society has his subsistence, conveniences, and amusements regularly distributed to him in their proper proportions."<sup>40</sup> His theory of distribution consists in analyzing "the component parts of the price of commodities," and clearly applies to men who are making money incomes; but he insists vigorously that money prices are merely nominal, and that real prices are prices in labor.<sup>41</sup>

<sup>37</sup> Carver, *Distribution of Wealth*, pp. xiv, xv.

<sup>38</sup> Compare Thorstein Veblen's brilliant paper, "The Limitations of Marginal Utility" in the *Journal of Political Economy*, November, 1909.

<sup>39</sup> *Wealth of Nations*, Book IV, chap. i.

<sup>40</sup> *Ibid.*, Book II, chap. ii.

<sup>41</sup> *Ibid.*, Book I, chap. v.

The precedent which Adam Smith set of treating money prices, money incomes, and preoccupation with money-making as superficial phenomena, has been devoutly observed by his successors to the present day. Walter Bagehot demonstrated, indeed, with his incisive brilliancy, that "English political economy" tacitly assumes the conditions of a money economy; that its conclusions do not apply to any other form of social organization; in fine, that it is "the science of business."<sup>42</sup> But, for all that, the economists, after his day as before, continued to warn their readers against being duped by appearances into attaching great theoretical importance to the use of money. John Stuart Mill stated their position with his customary lucidity when he wrote:

There cannot, in short, be intrinsically a more insignificant thing, in the economy of society, than money; except in the character of a contrivance for sparing time and labor. It is a machine for doing quickly and commodiously, what would be done, though less quickly and commodiously, without it; and like many other kinds of machinery, it only exerts a distinct and independent influence of its own when it gets out of order.<sup>43</sup>

On this view, money was a topic to be discussed by economists, but to be discussed apart from the main body of their theory. Hence it was relegated to separate chapters, placed after the chapters dealing with value and distribution. These subjects were developed as if the use of money made, as Mill claimed, no difference, save one of convenience.

The real business of the economist was conceived to be with what lay below "the money surface of things." The language of the earlier writers explicitly went behind distribution in money to distribution in "produce" or "goods"; but their thought implicitly went behind goods to something still more fundamental. To a man steeped in the common-sense of Ricardo's generation

<sup>42</sup> *Economic Studies*. "The Postulates of English Political Economy," and p. 79.

<sup>43</sup> *Principles of Political Economy*, Book III, chap. vii, § 3. Compare the passage in the Preliminary Remarks beginning, "The difference between a country with money, and a country altogether without it, would be only one of convenience."

this ultimate term of economic interest was the gaining of pleasure. Jevons was merely carrying the old logic of economic theory to a higher point of perfection when he explicitly based his book upon the hedonistic calculus. In proportion as the logic of the subject was perfected, all excrescences sloughed off, and all nonessentials put aside, the use of money was noticed less and less. The refined and expurgated terminology of the non-Euclidean and mechanical types of theory has no place for the pecuniary concepts of the market place. For as successive writers confined themselves more strictly to the metaphysical realities which they conceived to lie below the surface, the better did they succeed in ignoring pecuniary appearances. Nothing shows more clearly how unfit hedonistic psychology is for the uses of a modern science than this fact that the more perfectly the old hedonistic preconceptions are worked out in economics the less does the theory have to do with the facts.

The less logical eclectics have succeeded much better in framing realistic accounts of modern business processes. Marshall is far more lifelike than Clark or Fisher—largely because his “undertakers” are patently engaged in making money. But, aside from greater precision of detail and more up-to-date information, Marshall makes but little advance upon Ricardo. Like Mill, he discusses value and distribution in the first volume, and postpones his treatment of money to the second. Meanwhile he uses money primarily as the objective measure of human motives, and then goes below money to the bed-rock of hedonism. Most of the time, however, he works not upon the hedonistic foundations of his theory, but upon the superstructure, where pecuniary motives are sufficient for his purpose. Therefore in many details his book may fairly be called “the science of business.” What Bagehot said of the classical writers is true of Marshall: his theory postulates the conditions of modern money economy, and applies to the conditions of no other form of social organization. But Marshall reveals no adequate appreciation of the intimacy with which pecuniary concepts have entered into the minds of men and formed their habits of thinking. He does not realize that the economic rationality which he reduces to a hedonic

basis is largely the product of the money economy. Consequently he fails to see how substantial a factor in shaping the whole modern situation has been that seemingly superficial thing, money. Such a grasp upon the facts, indeed, becomes possible only when economic problems are seen from the evolutionary view-point, in the light of functional psychology.

From the latter view-point it is superficial to call the use of money superficial. For, during the long centuries that men have been gaining their mastery over the use of money, pecuniary concepts have been gaining a subtler mastery over men. In large measure, the creator of the institution has become its creature.

All types of the consequences which have been shown to result from the use of concepts in general are found to result from the use of money. Mental effort is saved to the individual and his economic efficiency is heightened by learning the established practice of handling economic goods of all sorts in terms of the one common denominator, money. This saving of effort is accompanied by a standardizing of the thoughts and actions of different individuals which enables them to co-operate effectively in executing great undertakings. Further, the use of pecuniary concepts trains men in the use of reason. The simplicity which is introduced by confining attention to pecuniary value in business dealings renders possible accounting—a system of “economic rationalism.” And daily repetition of acts directed by accounting, and judged on the basis of their contribution toward pecuniary profits, constrains men to the repression of conflicting instinctive impulses and jostles them out of unprofitable habits. Moreover, the prevalence of pecuniary concepts establishes norms of conduct which exercise a prescriptive authority over recalcitrant individuals. A man is admired for pecuniary success, and pecuniary failure commonly entails disesteem as well as discomfort. The individual who cannot “get on” in our money-making world is for us defective, whether on other grounds we hold him saint or sinner. Finally, the pecuniary concepts constitute a system which is measurably beyond the control even of

society as a whole and which ever and again produces consequences which no man willed. Monetary and banking systems, practices regarding mercantile credits, the pecuniary organization of business enterprises, the financial policies of governments, the inter-adjustments of the system of prices, the machinery of security markets, all are features of the money economy which man has made only to fall under their power.

Now since the use of pecuniary concepts has had so large a part in shaping the current economic régime, no theory can account for this régime in a fashion satisfactory to modern men so long as it slights the rôle of money. If it be answered that economic theory does not attempt to account *for*, but to give an account *of*, the present régime, the rejoinder is twofold. First, modern science reckons no theory of life phenomena adequate unless it indicates the line of derivation. For, in this field, the present is conceived to be the result of the past, and hence capable of being understood only as the factors in the process of development are made clear. Second, the attempt to explain the present as an accomplished fact without constant reference to the process of evolution, results in a theory which is artificial, superficial, and incomplete.

When economists ignore the use of pecuniary concepts by modern men, they must find other concepts to play the vacant rôle. Their usual device is to picture their own contemporaries as thinking in terms of marginal utility and disutility. The accounts thus framed of economic activities are artificial, because our contemporaries commonly think of goods in terms of money prices and of labor in terms of money wages—particularly in the highly organized sphere of business traffic, characteristic of the present régime. What is clearly present in a business man's train of thought is read out and a substitute is read in—a substitute which must be feigned to be in the dim region below the threshold of consciousness. A second artificial result is that to ignore pecuniary concepts and to deal directly with imputed ideas of personal reference puts the man of today and the savage upon substantially the same footing so far as their mental attitude toward goods and labor is concerned. When the elaborate fabric

of economic concepts, wrought out by countless generations, is ignored, the chief differentiating characteristic of the modern man and the modern social régime is dropped.

To present refined hedonistic calculations dealing with marginal increments of goods and labor as the guide of economic activity is superficial, because it does not reveal the institutional basis and the partial character of human rationality. The man created by the imagination of economists is indeed a thin and formal character in comparison with the heir of all the ages, with his rich racial inheritance of instincts, his dower of social concepts, and his wealth of habits. His very rationality gets its character from the institutions under which he is reared. It is a formal scheme imposed upon him with varying degrees of thoroughness, always in conflict with the human nature which he has inherited from uncounted generations of savage ancestors.

The more perfectly the strict logical implications of marginal utility are worked out, the more incomplete does it become as an account of economic processes in the money economy. For the reflex influences of pecuniary institutions upon economic activities cannot consistently be included in a theory which regards the use of money as superficial. That the making of goods is subordinated to the making of money; that industrial experts are similarly subordinated to business experts; that the orderly working of industrial processes is strictly dependent upon the maintenance of the precarious adjustments between various sections of the system of prices; that the rate at which gold is produced and the way in which banking is practiced affect the material welfare of millions of men; that different economic classes feel the disciplining hand of the money economy in such unlike measure as to find difficulty in understanding each other's preconceptions—these are a few among the pregnant consequences resulting from the use of pecuniary concepts which our marginal-utility theorists are prone to overlook. What we know about them has been developed in the monographic literature which commonly makes no use of marginal-utility theory. Just what effects these consequences, and the further consequences flowing from them, have upon the processes of economic life,

constitutes a problem not less difficult than important which will never be solved till we have a theory based upon adequate psychological knowledge and aiming to give an account of economic processes as they run in the money economy. At present we remain ignorant, because we have leaped past pecuniary concepts in our haste to reach the marginal utilities assumed to be behind them.

Pecuniary concepts, then, are much more than a set of empty symbols, which men use merely to facilitate their thinking, but which do not otherwise alter the substantial features of economic activity. Consequently, the theorist who leaves them out of account, in order that he may get an unobstructed view of the realities for which the symbols stand, becomes superficial where he means to become profound.<sup>44</sup> The problem of what does stand behind the symbols, however, remains a problem to be pressed. Of course, for many purposes of economic theory, it does not matter for what people want their dollars. And in many cases little does lie behind the dollars: the symbols have become the real thing. As McDougall, after many others, says: "With men nothing is commoner than that the earning of money, at first taken up purely as a means to an end, becomes an end in itself."<sup>45</sup> Nevertheless, discriminating analysis is needed of the relations between pecuniary concepts and concepts of serviceability, both in the technical and in the personal uses of goods. But economists will not be equipped to deal with such subtle

<sup>44</sup> An admirable illustration of this issue is afforded by Professor Veblen's recent criticism of Professor Fisher's *Rate of Interest*, and the latter's reply. Veblen pointed out that the rate of interest is a phenomenon of organized business traffic, and that these phenomena "can no more be handled in non-pecuniary terms than human physiology can be handled in terms of the amphioxus." Fisher replied somewhat in the manner indicated in the text (*Political Science Quarterly*, June and September, 1909; pp. 298-303 and 512, 513).

It is interesting to notice that Veblen recognized the self-consistency of Fisher's treatise as an example of the mechanics of self-interest, and held that the omission of pecuniary concepts creates difficulty only when the theory is applied in explanation of current business phenomena (p. 296). By trying to meet Veblen upon the latter ground, Fisher admits the fairness of submitting his theory to the test of correspondence with facts.

<sup>45</sup> *Social Psychology*, p. 349.

problems until they have acquired skill in psychological analysis. They cannot even see the problems clearly until they cease ignoring the use of pecuniary concepts and imputing ideas of marginal utility to men whose own thinking runs in dollars and cents.

If pecuniary concepts are so large a factor in economic life, how is it that they have been ignored in favor of discussion in terms of marginal utility without producing more glaring absurdities?

The answer to this question is found in an apparent paradox. While ignoring the letter of the pecuniary law, the classical economists and their successors have really exaggerated its spirit. They produced this curious result by unwittingly absorbing the essence of pecuniary rationality into their tacit assumption of hedonic psychology. Then they applied this hedonism as the universal law of human nature, thus representing all mankind as ruled by the psychological parallel of pecuniary logic.

In the highly organized money economy of today, most economic activity takes the form of making and spending money. In varying measures, all men living in this environment are constrained to conform their thoughts and actions to the conditions which it presents. These conditions form a coherent system with its own rules of conduct. To make pecuniary gains and to avoid pecuniary losses are the sole motives for activity which the money economy recognizes. The general method of making money is by repeated series of purchases and sales; the means of directing action is accounting; the criterion of success is the balance-sheet. Hence the money-maker should be an unerring calculating machine, automatically feeding itself pecuniary data and grinding out correct pecuniary results. Vigorous instincts, ardent emotions, strong habits, aside from the instinct of acquisition, the love of money, and the habit of cool calculation, find no place in this system of ideas, because they are hindrances rather than helps to the making of money. Indeed, the perfect creature of the consummate money economy need have no springs of action within himself, provided activity can be excited in him by every prospect of making or of losing money. To stimuli of this

order, he should be acutely sensitive; to stimuli of other orders he should be inert. Every interest of his life should be reducible to terms of one common denominator—the dollar. Perfect pecuniary rationality should be his chief psychological characteristic.

This formulation of the mental operations of an ideally perfect money-maker can be converted into a passable formulation of Bentham's hedonism by merely turning pecuniary into psychological terms. Substitute pleasure for profit and pain for loss, let the unit of sensation stand for the dollar, replace accounting by the hedonic calculus, interpret self-interest as the maximizing of net pleasures instead of net profits, and the transformation is complete. The creature of hedonic psychology, like the creature of the money economy, has substantially no instincts, emotions, or habits, which are not embodied in the pursuit of pleasure along the road of calculation. Both creatures are essentially passive, so that the theorist accounts for their actions by studying the motives offered by their environments. These external motive forces—net resultants of pleasure-pain or profit-loss complexes—attract and repel men with such mechanical precision that knowledge of their workings is all the knowledge necessary to forecast human action. Complete reliance may be placed upon the rationality of both the pecuniary and the hedonic subject.

This parallelism is no accident. The exaggerations involved in the preceding formulation of pecuniary psychology would be obvious to common-sense were it seriously offered as a competent statement of the operations of the human mind. But familiarity with an environment which unremittingly drills everyone in the recognition and acceptance of pecuniary motives and pecuniary calculations as norms of conduct lends much of its plausibility to hedonism. It is exceedingly doubtful whether such hyper-rational view of human nature could have gained wide credence among men not themselves disciplined in the use of pecuniary concepts. For whatever reason, the classical economists did accept, implicitly or explicitly, the hedonistic psychology, and

conceived their economic man in its terms.<sup>46</sup> The essential feature of the conception is that it assigns the guidance of economic activity to a scheme of rational calculation essentially like the scheme of rational calculation which the money economy inculcates.

Hence it is that the formal neglect of pecuniary concepts by economists has not produced results patently out of line with the facts of the money economy. And hence it is that this neglect has not forced itself upon the attention of the theorists as a mistake. The difference made by crediting the rôle really played by pecuniary rationality to hedonistic rationality has been chiefly, though not merely, formal. The most generally appreciated error resulting from this misconception has been the exaggeration of rational calculation as a factor in guiding activity. Had economists understood the true nature of such calculation—had they seen it as a system of ideas inculcated in a recalcitrant human nature by the development of pecuniary institutions—they would have been less rash in assuming that men may be treated as calculating machines. Also they would have found and attacked the problems: Why is pecuniary rationality so difficult for men to learn; why do certain classes learn the lesson more perfectly than others; why is its rule firmer in making than in spending incomes; what is the relation of this rationality to the elder traits of human nature; and how far do the latter maintain themselves in the struggle for domination with their younger rival?

This statement of the reason why the formal neglect of pecuniary concepts has not resulted in more serious errors, serves also to explain why a mechanics of self-interest helps

<sup>46</sup> As has been shown above, however, the classical economists were somewhat inconsistent, both in admitting the instinct of sex, and in making some use of pecuniary concepts. But Jevons and those who have worked upon the mechanics of self-interest since his day, wiped away these realistic blemishes, and developed economic theory directly from the hedonic calculus. A few writers of this type, like Fisher, have formally repudiated Benthamism; but they have kept the old ideas while adopting new words. Meanwhile the eclectic writers have made large use of the same conception of human nature for the framework of their theories.

toward an understanding of current economic life. For, this system of mechanics is an elaboration of pecuniary logic—save chiefly for the fact that pecuniary motives are expressed in terms of satisfaction and want, or desire and aversion. Pecuniary logic is such a momentous factor in the economic situation, that a clear working-out of theorems along its lines of logical development is illuminating. In other words, this type of economic theory exhibits the spirit of our pecuniary institutions freed from the meshes of irrational human nature. And modern men are sufficiently under the sway of pecuniary logic to make such economic theory plausible. But this plausibility is due to a confusion of ideas, and constitutes no valid reason for continuing to ignore pecuniary concepts or to neglect psychology.

Finally, the same line of thought explains why hedonistic explanations become more artificial the farther they are pushed. The discipline of economic life in the money economy at its present stage of development inculcates pecuniary rationality with greater thoroughness in the field of organized business traffic than elsewhere. Consequently, the hedonistic analogue of pecuniary rationality applies best to problems of production and distribution, which are nowadays business problems in the main. Consequently, also, it applies less well when extended to explain the consumption of wealth or the ultimate springs of economic activity, which are not business problems. Hence hedonistic preconceptions have worked less harm in the work of the classical writers and of the modern eclectics than in the work of the non-Euclidean and mechanical theorists. For the former groups deal with a rather restricted range of essentially business activities, while the latter often seek to make some form of hedonic calculus afford a rational explanation of the whole of economic life.

## V

The discussion of how economists have treated pecuniary concepts was entered upon to show the ill results of separating the task of framing a theory of the current economic régime from the task of explaining how this régime has come to be.

We have seen that by taking the facts out of their evolutionary perspective, the economists made the grave blunder of thinking that pecuniary concepts are a set of empty symbols to be disregarded as superficial. By so doing, they made their theory of the current business processes artificial, superficial, and incomplete in certain definite respects, and they obscured the genuine problem of the relation between the ideas of pecuniary value and of serviceability. They were saved from patent absurdities and confirmed in their mistaken practice, partly by the fact that eclectics have never dropped pecuniary concepts altogether from sight, but chiefly by the fact that their hedonistic logic ran roughly parallel to pecuniary logic.

If economists cannot hand over to others the study of how men have acquired their present measure of rationality without falling into misconceptions which vitiate the work which they themselves attempt to perform, they clearly do need the psychological training which Mr. McDougall recommends. It is clearly unsafe for them to take man's rationality for granted. And it is clearly unwise for them to continue trusting and using the traditional hedonistic psychology.

A few workers have already begun to develop a more scientific type of economic theory—a type which looks at its material from the evolutionary view-point, even when it does not go at length into the details of past development. In this type of theory, there is no logical need of positing an abstract human nature characterized by rationality. On the contrary, its leading problem is to account for the actual human types which are found in every nation, by tracing the processes by which habits and institutions have grown out of instincts, and by examining the fashion in which the new acquisitions and the old traits combine in controlling economic conduct. But these workers are not yet skilled and their task is difficult. Consequently, the counsel and example of a trained psychologist must seem most welcome.

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